

FC
NOTICES
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UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency

P.O. Box 2415

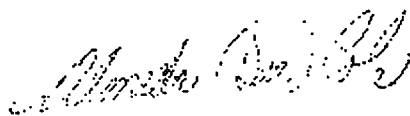
Washington, DC 20013-2415

Notice FC-99

For: State and County Offices

Reviewing Borrower Cases Before Offering Primary Loan Servicing (PLS) or Buyout

Approved by: Acting Deputy Administrator, Farm Loan Programs



1 Overview

A

Background

An OIG review of accounts, approved for PLS and buyout under FmHA Instruction 1951-S, revealed that significant changes to a borrower's operation, that occurred after the County Office received the application, were not always identified and considered before closing the servicing action.

B

Purpose

This notice:

- directs Ag Credit Managers to contact borrowers before offering PLS or buyout
- establishes a clear policy to determine when a borrower's application should be updated, and changes to the proposed servicing considered, before offering PLS or buyout.

Disposal Date

December 1, 1997

Distribution

State Offices; State Offices relay to County Offices

1-17-97

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2 Reviewing Borrower Cases

A Contacting Borrowers

Ag Credit Manager shall:

- contact the borrower before mailing:
 - FmHA Instruction 1951-S, Exhibit B or F, offering to restructure an account
 - FmHA Instruction 1951-S, Exhibit A, Attachments 5-A and 6-A, or Attachments 5 and 6, offering buyout
- confirm that no changes have occurred in the operation since submitting the servicing application that may substantially affect the outcome of the proposed servicing action.

Note: Confirmation can be made through a telephone call, field visit, or office visit.

B Documenting Results of Confirmation

Document confirmation with borrower in the case file. Do not use the information obtained to routinely update the loan servicing application. Only update application information when there is sufficient evidence that the operation has changed significantly from the time the initial application was submitted. When significant changes have occurred, revise the Farm and Home Plan and DALR\$ accordingly. See subparagraph C to determine whether an operation has changed significantly.

C Determining Significant Changes in Operation

The following situations represent significant changes in the borrower's operation when the application and servicing outcome should be reconsidered.

Note: All situations are not included.

- Ag Credit Manager can document that the borrower knowingly provided false information on the PLS application; this includes unauthorized disposition or neglect of chattel security, or waste of real estate security property.
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2 Reviewing Borrower Cases (Continued)

C

Determining Significant Changes in Operation (Continued)

- For borrowers approved for PLS only, the borrower's situation has changed dramatically, and the proposed servicing action would not fulfill the purposes of the loan.

Examples: The term of the Farm and Home Plan, that the DALR\$ Analysis Report is based on, has expired.

The borrower:

- switched to an enterprise that is different from the original so that the Farm and Home Plan is no longer accurate, such as a switch from dairy to beef, poultry to hogs, or alfalfa to corn, etc.
 - quit farming
 - entered into a contract to sell the property, or a significant portion of it, after the PLS application was received
 - depends on leased land for the operation, but the leases expired or were canceled after the PLS application was received.
- Incident occurs causing a significant reduction or increase in the value of the security.

Examples: The borrower has a herd of beef cattle and a significant number of animals were killed by disease, or other natural disaster, that could not be avoided by the borrower.

Property owned, either chattel or real estate, including fixtures, is destroyed or severely damaged in a natural disaster or fire, and insurance coverage is inadequate.

The discovery of significant mineral deposits or important water resources on the property, or an alternative use of the property increases value.

D

Timely Processing

The review shall not cause an unreasonable delay in processing the loan servicing application.
